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# United Kingdom

# Wine

# Marketing Annual Report

# 2007

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**Report Highlights:**
The outlook for US wine exports to the UK market is extremely bright due to several factors. These factors include declining sales of French wine in the UK, and an increase in UK consumers' appetites for wines from non-EU suppliers. According to UK Customs trade data, the UK imported almost $3.6 billion of still light wine in 2005, and 10 percent of that total was US wine. ACNielsen retail expenditure data for 2006 shows a 16 percent retail market share for the US. It also predicts that sales of US wine will surpass those of French wine in UK retail outlets by mid-2007. This would put the US at number two in the UK retail market, Australia is currently the largest supplier.

Includes PSD Changes: No
Includes Trade Matrix: Yes
Annual Report
London [UK1]
[UK]

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## Executive Summary

According to research commissioned by VINEXPO, and conducted by IWSR, the retail sales value of the UK wine market grew by 25 percent between 2001 and 2005, to reach more than $9 billion. Looking ahead, this research predicts that the retail sales value of the UK wine market will be the largest in Europe by 2010. The UK is already the world's largest importer of wine, since UK domestic production is negligible.

The UK wine market value has been growing steadily through a rise in the volume of wine being consumed, and also a slight movement by consumers towards more expensive wines. However, ACNielsen data shows that UK market growth has currently slowed. For the year-to-October 2006, ACNielsen records UK sales value growth at 1.8 percent and sales volume growth just 0.2 percent.

The UK enjoys a wide variety of wine imports from around the globe. Since 2003, total sales of "New World" wines have surpassed those of traditional "Old World" suppliers such as France, Italy, Germany and Spain. The New World suppliers include Australia, USA, South Africa, and Chile. Currently, Australia is the number one supplier to the UK market, with France second and the USA third. The outlook for US wine in the UK market is extremely bright. As French wine sales to the UK are declining in volume, and (to a lesser extent) in value, the USA is expected to take the number two position in the UK market in 2007. ACNielsen data shows that the USA grew by 8.7 percent in volume terms, and 10.4 percent in value, in the year-to-October 2006.

The retail sector (or off-trade as it is termed in the UK) now accounts for at least 70 percent of UK wine sales. There is trade industry concern that such a significant percentage of UK wine sales volume is through the supermarket chains, since supermarkets sell around 80 percent of their wine volume on discount. Smaller producers are finding it difficult to compete in this retail environment, which may lead to a decrease in choice of wine for the UK consumer over time.

Wine sales in the foodservice (or on-trade) sector have had a mixed performance in recent years, with a slowing of alcoholic drink sales generally in hotels and restaurants. However, healthy sales activity has been noted for wine in UK pub/bar chains. Consumption of wine in the UK is increasing at the expense of beer sales, as the British become more "continental" in their social habits, and as they drink wine more often with meals at home.

Branded wines are driving the UK market, providing many consumers with comfort because they lack the experience to choose by grape and region (since few have knowledge of European appellations). However, there is a small, but growing, group of UK consumers who are "wine connoisseurs". They have an interest in wine, and are capable of making choices by grape variety, regional characteristic and individual production method.

Sales of rosé wine jumped 32 percent in the year-to-October 2006, mainly as a result of the current fashion among young female consumers for White Zinfandel.

Sparkling wine sales are also doing well, since they are increasingly perceived as informal and suitable for drinking on any occasion.

The market for vermouth and other aromatized wines is essentially static, with the category unable to attract younger consumers.

## Production

Wine production in the UK is minimal due to the variable climate. Historically, it has been a cottage industry for wine enthusiasts and a hobby of larger land-owners. Today, it is slowly becoming a profitable enterprise. It has limited potential for large-scale production, however, as most vineyards have less than 2 hectares under vine. According to the Wine Standards Branch, there are around 353 vineyards (91 wine producers) in England and Wales, covering about 761 hectares. This production represents only 0.01 percent of UK wine consumption. Production volume in 2005 was considerably reduced from the relatively high level of the 2004 harvest. The 2005 harvest totaled 12,806 hectoliters, comprised of 10,427 hectoliters white wine and 2,379 hectoliters red wine.

The UK also produces a small quantity of "British wine", which is made from imported concentrated grape concentrate, mainly from Italy.

The lack of any significant production volume in the UK means that it has negligible affect on market figures. UK production figures are, therefore, not represented in the following analyses.

## Consumption

### UK Market Size

According to HM Customs the UK imported 12,230 hectoliters of still wine in 2005, worth $3.6 billion at entry to the market.

ACNielsen figures show the value of the UK retail market to be:

| | Year to October 2004 | Year to October 2005 | Year to October 2006 | Change '06/'05 |
|---|---|---|---|---|
| Sales Value in Millions | £3,963<br>$6,341 | £4,198<br>$7,137 | £4,274<br>$7,907 | 1.8% |
| Sales Volume in 000's 9 liter cases | 86,594 | 91,176 | 91,352 | 0.2% |

Average Exchange Rates: 2004: 1 BPS = 1.60 USD
2005: 1 BPS = 1.70 USD
2006: 1 BPS = 1.85 USD

### Demographics

- Wine is consumed by almost two thirds of the UK population. The average wine consumer now drinks 32 (75cl) bottles every year.
- Wine consumption is steadily rising. This is related to increasing personal disposable income in the UK, and an influence of lifestyle from continental Europe.
- Beer is wine's greatest rival in the UK, despite its consumption being in decline.
- The largest consumer group for wine is: affluent consumers, over 35 years of age.
- The increase in wine sales is driven by this largest consumer group drinking more, as opposed to younger consumers being attracted to wine.
- A slightly higher percentage of women drink wine: 68.5 percent compared to 62 percent of men in 2004.

**UK Per Capita Consumption of Alcoholic Beverages**

| Year | Beer (L) | Cider/Perry (L) | Made Wine (L) | Wine of Fresh Grapes (L) | Spirits (LPA) |
|---|---|---|---|---|---|
| 1994 | 128.80 | 10.23 | 2.16 | 15.70 | 2.13 |
| | | | | | |
| 2002 | 124.40 | 12.44 | 3.79 | 23.50 | 2.33 |
| 2003 | 125.10 | 12.19 | 1.58 | 24.02 | 2.46 |
| 2004 | 123.90 | 12.62 | 1.77 | 26.20 | 2.52 |

L = Liters; LPA = Liters of Pure Alcohol; Figures based on population aged 15 years and over; Made wine includes wine-based low alcohol products, sherry & fruit wines. *Source: The Drink Pocket Book, 2006*

**Wine Color Preference**

- More white wine than red wine is consumed in the UK (48 percent versus 44 percent).
- The relatively popularity of wine varietals within the UK market is influenced by fashion trends. UK consumers are currently favoring lighter, cleaner, unoaked whites, e.g. Sauvignon Blanc, and, in particular, Pinot Grigio – it showed an enormous leap in sales in 2006 of 74 percent. However, Chardonnay is still the number one white variety sold.
- Rosé or blush wines are currently in vogue, and sales jumped by almost 32 percent in the year to October 2006. Rosé wines now constitute 8 percent of the total market. The increase is predominantly driven by young, female, consumers purchasing easy-drinking wines such as White Zinfandel.
- The top 3 most popular red wine varietals are Cabernet Sauvignon, Merlot and Shiraz/Syrah respectively. Pinot Noir has recently become fashionable, growing 18 percent in retail sales volume in year-to-October 2006.

**Profile of Wine Drinkers: By Wine Color**

| Color of Wine: | | White % | Red % |
|---|---|---|---|
| **Sex** | **Male** | 31.0 | 49.4 |
| | **Female** | 69.0 | 50.6 |
| **Age Group** | **18-24** | 8.5 | 4.7 |
| | **25-34** | 17.1 | 14.8 |
| | **35-49** | 34.0 | 32.2 |
| | **50+** | 40.3 | 48.3 |
| **Social Grade** | **AB** | 38.4 | 45.5 |
| | **C1** | 34.1 | 32.7 |
| | **C2** | 14.6 | 13.0 |
| | **DE** | 12.9 | 8.7 |

Social Grade Definitions:

AB Upper Middle/Middle Class i.e. Higher/intermediate managerial professional
C1 Lower Middle Class i.e. Junior managerial professional
C2 Skilled Working Class i.e. Skilled manual worker
DE Working Class i.e. Unskilled manual worker

Source: The Drinks Pocket Book; TNS Consumer AlcoVision, Year Ending June 2005

**Number of Cases Sold by Wine Type**

| Wine Type | Number of 9L Cases Sold (000s) | | | |
|---|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % of Type | % Change 06 v 05 |
| White | 44,229 | 43,823 | 48% | -0.9% |
| Rosé | 5,174 | 6,817 | 8% | 31.8% |
| Red | 41,298 | 40,183 | 44% | -2.7% |

Source: ACNielsen

**Annual Sales Volume of Key Wine Varietals**

| Wine Varietal | Sales Volume (000s 9L Cases) | | |
|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % Change 06 v 05 |
| Chardonnay | 8,072 | 8,386 | 3.9 |
| Sauvignon Blanc | 3,385 | 3,792 | 12.0 |
| Pinot Grigio | 1,712 | 2,983 | 74.2 |
| Liebfraumilch | 2,658 | 2,100 | -21.0 |
| Soave | 2,101 | 1,888 | 10.1 |
| Zinfandel White | 1,484 | 1,829 | 23.2 |
| Viognier | 153 | 127 | 17.0 |
| Muscadet | 522 | 496 | -5.0 |
| Muscat | 117 | 81 | -30.8 |
| Cabernet Sauvignon | 4,472 | 4,642 | 3.8 |
| Merlot | 3,834 | 3,798 | -0.9 |
| Shiraz | 2,664 | 2,983 | 12.0 |
| Syrah | 360 | 327 | -9.2 |
| Shiraz Cabernet | 2,908 | 2,500 | -14.0 |
| Tempranillo | 2,221 | 2,142 | -3.6 |
| Cabernet Shiraz | 1,588 | 1,958 | 23.3 |
| Pinot Noir | 262 | 310 | 18.3 |
| Zinfandel | 257 | 270 | 5.1 |
| Malbec | 179 | 177 | -1.1 |

Source: ACNielsen

**Number of Cases Sold as Branded / Private Label**

| Wine Type | Number of 9L Cases Sold (000s) | | | |
|---|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % of Type | % Change 06 v 05 |
| Branded | 68,147 | 69,421 | 76% | 1.9% |
| Own (Private) Label | 23,093 | 21,985 | 24% | -4.8% |

Source: ACNielsen

Some consumers are "brand dependent", they will trust a name, and pay for security. Others are "experimental enthusiasts" and will respond to more detailed messages on provenance.

Brands are driving the growth in the UK wine market. The most popular wine brands in the UK are:

**UK Top 10 Retail Wine Brands for Still Light Wines**

| | | | |
|---|---|---|---|
| 1 | Hardy's | 6 | Kumala |
| 2 | Blossom Hill | 7 | Banrock Station |
| 3 | E & J Gallo | 8 | Wolf Blass |
| 4 | Jacob's Creek | 9 | Lindemans |
| 5 | Stowells | 10 | Echo Falls |

Source: ACNielsen, Year-to-October 2006

**Other Consumption Trends for Still Wine**

- The most popular style of wine consumed in the UK is relatively young and ready to drink.
- Most wine is purchased in 75cl bottles, however, bag-in-box wine now accounts for 10 percent of the UK's still wine retail market, and there is a growing market for 250ml bottles.
- Following years of debate, UK consumers have ultimately shown little resistance to the introduction of screw caps on their wine bottles.
- Consumers generally do not consider alcoholic content specifically when choosing wine. High alcohol contents are apparently not a barrier to sales since many "New World" reds are of a relatively high alcoholic content, and their sales are increasing.

**Sparkling Wine Consumption**

- Sparkling wine has a younger audience than still wine generally, 20-24 year olds are more likely to choose sparkling wine, while 25-44 year olds are more likely to choose champagne.
- Personal disposable incomes are growing at 3 percent per annum, and there are aspirational lifestyle trends exhibited by those in the 20–40 year age range.
- There is a documented increase in the entertaining of friends at home.
- Sparkling wine is increasingly perceived as informal and suitable for drinking on any occasion.
- Women consume more sparkling wine than men, while men tend to favor champagne.
- Sparkling wine purchasers are generally not loyal to any one brand or style (although Cava is popular). Champagne drinkers tend to know the different properties of brands and are much more brand-loyal.
- Consumption of sparkling wine (non-champagne) is evenly distributed nationally across Great Britain, whereas champagne consumption is particularly high in the London area.

## Vermouth Consumption

Vermouth, aromatized wines and other aperitifs include brands such as Martini, Cinzano, Noilly Prat, and Dubonnet.

- Consumption is fairly static, with the vermouth category a victim of fashion trends in the alcoholic drinks sector.
- Vermouths and other aromatized wines are generally drunk neat in their in their country of origin, however, in the UK these products are considered as “mixables” i.e. they will be served with lemonade, fruit juice or tonic water.
- The weather influences consumer drinking habits in the UK and many “mixables” are perceived as being either summer drinks or Christmas drinks.
- The British Market Research Bureau (BMRB) reports that vermouth drinkers are predominantly women, aged 45-64 and relatively more affluent.
- Consumption is notably higher than average in Greater London and the Midlands, with consumers in the South East and East Anglia showing an average level of consumption.

## Distribution

The retail sector (or off-trade as it is termed in the UK) accounted for 79 percent of the volume of UK wine sales, and 54 percent of the value in 2005. Sales are being driven predominantly by promotions and discounting. Many UK consumers appear content with the variety offered by their local supermarket, and are likely to pick up a bottle of whatever wine is on promotion at the time. Supermarkets are not concerned about the amount of wine sold on discount, since sales promotions are funded by wine suppliers.

Specialist wine chains previously saw some of their market share eroded by supermarket chains, but, with growing consumer interest in wine, they are starting to experience something of turnaround in fortune. Volume share for the specialist wine trade is expected to rise slightly in 2006 over the previous year, and sales of premium wines continue to drive value.

In 2005, the foodservice (or on-trade) sector accounted for 21 percent of total wine volume sales, but 46 percent of total value sales. Sales in the on-trade sector are closely linked to the UK’s economic climate. Restaurants and hotels have experienced tougher trading conditions than pubs and bars. The practice by restaurants and hotels of adding a 300-400 percent mark-up on wine frustrates many consumers and discourages them from choosing better wines in such outlets. Pubs/bars have become a good value alternative, and many display their wine lists prominently. Wine is also more likely to be sold by the glass in pubs and bars. This encourages people to experiment and trade up to higher-value wines.

**On-Trade vs Off-Trade Sales of Wine**

| | **Sales Volume** | | | **Sales Value** | | |
|---|---|---|---|---|---|---|
| | **Million liters 2005** | **Market Share** | **Change 2000 - 2005** | **£ million 2005** | **Market Share** | **Change 2000 - 2005** |
| Off-trade | 1,043.9 | 79% | 25.1 % | 6,420.1 | 54% | 30.2% |
| On-trade | 278.9 | 21% | 43.0% | 5,391.3 | 46% | 57.5% |
| TOTAL | 1,322.7 | 100% | 28.5% | 11,811.4 | 100% | 41.4% |

Source: Euromonitor International Estimates

The information given in both tables below is compiled from sales in UK retail outlets only.

**Annual Total Sales Volume of Light Wine from Major Country Suppliers**

| Country of Origin | Annual Total Sales Volume of Light Wine (000s 9L cases) | | | |
|---|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % Change 06 v 05 | Market Share in year to 7/10/06 |
| Australia | 19,324 | 20,111 | 4.1 | 22.0 |
| France | 15,698 | 14,940 | -4.8 | 16.3 |
| USA | 13,320 | 14,483 | 8.7 | 15.9 |
| Italy | 10,021 | 10,840 | 8.2 | 11.9 |
| South Africa | 9,065 | 8,123 | -10.4 | 8.9 |
| Spain | 6,465 | 6,392 | -1.1 | 7.0 |
| Chile | 5,904 | 5,845 | -1.0 | 6.4 |
| Germany | 5,966 | 5,342 | -10.5 | 5.8 |
| New Zealand | 1,286 | 1,502 | 16.8 | 1.64 |
| Argentina | 1,470 | 1,419 | -3.4 | 1.6 |
| Portugal | 880 | 826 | -6.1 | 0.9 |
| Hungary | 671 | 600 | -10.5 | 0.7 |
| Other | 1,106 | 929 | -16.0 | 1.0 |
| TOTAL | 91,176 | 91,352 | 0.2 | 100 |

Source: ACNielsen

**Annual Total Sales Value of Light Wine from Major Country Suppliers**

| Country of Origin | Annual Total Sales Value of Light Wine (BPS millions) | | | |
|---|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % Change 06 v 05 | Market Share in year to 7/10/06 |
| Australia | 990 | 1,032 | 4.2 | 24.1 |
| France | 763 | 747 | -2.1 | 17.5 |
| USA | 632 | 698 | 10.4 | 16.3 |
| Italy | 415 | 452 | 8.9 | 10.6 |
| South Africa | 407 | 367 | -9.8 | 8.6 |
| Spain | 283 | 283 | 0.3 | 6.6 |
| Chile | 264 | 266 | 0.8 | 6.2 |
| Germany | 182 | 166 | -8.4 | 3.9 |
| New Zealand | 92 | 107 | 15.7 | 2.5 |
| Argentina | 63 | 61 | -4.2 | 1.4 |
| Portugal | 36 | 33 | -7.8 | 0.8 |
| Hungary | 27 | 25 | -7.1 | 0.6 |
| Other | 44 | 37 | -15.9 | 0.9 |
| TOTAL | 4,198 | 4,274 | 1.8 | 100 |

Source: ACNielsen

**Trade**

The first phase of the US-EU Wine Agreement was signed in March 2006. The accord has given more certainty to US vintners supplying the UK/EU market with regard to import regulations. Over time the agreement is expected to facilitate trade by mutual acceptance of wine-making practices, and provide agreement on labeling, certification rules, semi-generic names, and origin. In addition, the removal of the requirement that still wine should be less than 15 percent alcohol by volume has opened the door for some boutique wines previously excluded from the market, and sweet/dessert wines. Further information on the US-EU Wine Agreement can be found at: http://www.useu.be/agri/wine.html

Import analysis from statistical tables found on the latter pages of this report:

**Still Wine**

- According to HM Customs data the UK still wine import market experienced a slight decline in volume in 2005 (-1.7 percent), and a slight rise in value of 0.5 percent.
- The "New World" constituted 56 percent of UK imports by volume and 58 percent by value in 2005.
- Australia is the primary supplier to the UK market, with 22 percent market share by volume and 24 percent market share by value in 2005.
- France is the second largest supplier to the UK market, however, French wine sales to the UK are declining in volume, and (to a lesser extent) in value.
- ACNielsen data shows that sales of US wine in the UK retail sector grew by 8.7 percent in volume terms, and 10.4 percent in value, in the year-to-October 2006.
- The USA is expected to take the number two position in the UK market in 2007.

**Sparkling Wine**

- The UK sparkling wine import market grew by 6 percent in volume and 4 percent in value in 2005.
- France had 43 percent of volume market share and 80 percent of value in 2005, skewed by the high value of champagne.
- Imports from Australia, New Zealand and the United States enjoyed considerable value gains in 2005.
- Australia is now the third largest supplier to the UK sparkling wine market behind France and Spain. Italy is now fourth largest supplier.

**Vermouth, Aromatized Wine**

- UK imports of Vermouth and other aromatized wine declined by 10 percent by volume, and 6 percent in value in 2005
- The market is dominated by European suppliers, particularly France and Italy. The US is not a regular trade supplier.
- Vermouth imports to the UK are forecast to decrease in 2006 in both value and volume.

**Market Dynamics**

**"Old World"**

France

- French wines continue to lose ground in the UK market.
- To respond to market conditions in the UK, French producers, in liaison with UK importers, are beginning to launch innovative branded wines, displaying grape varieties on the labels.
- France has strong "brands" such as Bordeaux and Burgundy and a loyal following of UK consumers (that tend to be very knowledgeable about wine).
- On the basis of the latter two points, sales of French wine may recover, but it may take many years.
- The best performing wines from France in the UK market currently are (paradoxically): Champagne and Vins de Pays. Champagne sales are linked to brand awareness. The mass market Vins de Pays delivers fruit driven wine at a competitive price, and importantly is able to label by grape variety.

Germany

- For the past decade, German wine sales have fallen victim to changing UK consumer tastes.
- There are signs that Germany's fortunes in the UK wine market are turning around. Forecasts for value and average price per bottle for are encouraging.
- The audience for Germany's traditionally popular styles, such as Liebfraumilch and Hock, is continuing to switch preference. However, sales of Riesling are increasing, in part due to the building of this category by Australia.

Italy

- Just over one bottle out of every 10 sold in the UK supermarket sector is Italian. This puts Italy in fourth place behind Australia, France and the US.
- Italy continues to grow its exports to the UK market, albeit more slowly than Australia and the US.
- Chianti, Frascati and Pinot Grigio currently enjoy healthy sales, with Pinot Grigio the new Chardonnay of the UK market.
- Italy's diversity of wines is said to be its greatest strength, but also its greatest weakness as UK consumers struggle to understand the relative merits of the different Italian regions.

Spain

- According to ACNielsen, volume and value sales for Spain for 2005 stagnated somewhat in year-to-October 2006. Looking ahead, Spain is in danger of being overtaken by Chile on both accounts.
- Besides Rioja and Cava, UK consumers find it hard to identify with Spanish wine.
- Rioja comprises around one-third of all Spanish wine sales in the UK. Sales are affected by the trend towards Shiraz/Syrah, Malbec and Pinot Noir.
- Spain has a reputation for cheap red wine, with many listings selling for under £3. Spanish still white wine is less well-known.
- Some Spanish wine brands are beginning to emerge, particularly from Ribera del Duero.

**"New World"**

Australia

- ACNielsen data (year-to-October 2006) shows signs that the growth of Australian wine exports to the UK have slowed.
- Large brands are playing a crucial role in Australia's success. Australia now has five of the top ten brands by value, led by Hardy's.
- As the focus of the UK supermarket chains is firmly on profit and how much money can be made per square meter, they turn to the big brands to fill their key promotional slots. The result is that an estimated two-thirds of Australian wine sells below its recommended retail price.
- Discounting has largely been possible due to the oversupply of wine from Australia.

USA

- Sales of US wine in the UK market are largely driven by the Blossom Hill and E&J Gallo brands. Around one-third of US sales in the UK may be Blossom Hill alone.
- This contributes to the current contradiction between 8 percent of retail shelf space attributed to US wine and its 16 percent market share (ACNielsen).
- In recent years, trade sources have described a polarity in the supply of wine by the US to the UK market: plentiful supply of lower end wine and ample supply of boutique-priced wine.
- The Wine Institute of California is continuing their high profile campaign to demonstrate to the trade that the US can supply adequate wine for the UK market's needs in the mid-price range.

South Africa

- South Africa exports to the UK dropped by 10 percent in volume and value in the year-to-October 2006.
- The Kumala brand has recently accounted for around 22 percent of South African wine exports to the UK. The purchase of the Kumala brand by the world's largest wine company - Constellation is said by industry sources to have caused some interruptions in Kumala's distribution and marketing strategy.

Chile

- Chilean wine sales declined by 1 percent in volume and rose 1 percent value in year-to-October 2006.
- Around 5 years ago Chile had a reputation for cheap red wine in the UK on account of their continuous price promotions at £2.99 ($5.30).
- The Wines of Chile UK Office continue to undertake promotional work to re-position Chile as a higher quality and price proposition.
- Successful Chilean brands in the UK include: Errázuriz, Cono Sur and Concha y Toro.

New Zealand

- New Zealand had another exceptional year in 2005/6 for their wine exports to the UK. Volume increased by 17 percent and value by 16 percent in year-to-October 2006.
- Its average price per bottle is higher than any other country producer.
- The trend in the UK away from oaked chardonnays to lighter, fruitier wines is fueling a large market for Sauvignon Blanc. Marlborough Sauvignon Blancs enjoy a very good reputation in the UK, with customers showing brand and varietal loyalty.

**Marketing**

Generic support for wine origins continues to play a pivotal role in UK wine marketing. For example, a vast array of country and regional pavilions support the London International Wine & Spirit Fair each year. This show takes place annually, and the next show is:

May 22-24 **London International Wine & Spirits Trade Fair**, ExCeL, London
Contact: Brintex Ltd Tel: 011 44 20 7973 6401 Fax: 011 44 20 7233 5054
Web site: www.londonwinefair.com E-mail: wine@hgluk.com

**Examples of Generic Country Marketing Activities**

| | |
|---|---|
| Australia | - Australian Wine Bureau UK Office<br>- Australia Day Tasting<br>- Around 66 percent of Australian wine is sold on price or multi-buy promotion (versus 46 percent of wine as a whole) |
| France | - Wine Department within Sopexa (French marketing body) London Office<br>- Strategy to improve quality perception in lower appellations<br>- Advertising campaigns for Alsace, Bordeaux, Burgundy |
| USA | - Wine Institute of California UK Office<br>- UK representative for wines from Washington and Oregon states<br>- Generic regional tastings e.g. Napa Valley |
| Spain | - Wines from Spain UK Office<br>- Advertising in trade and consumer press<br>- In-store promotions |
| Germany | - German Wine Institute<br>- Campaign to improve image of German wines |
| South Africa | - Wines of South Africa UK Office<br>- Historically low price points, concentrating on brand-building instead of discounting to build market share |
| Chile | - Wines of Chile UK Office<br>- Trade & Press educational messages<br>- Chilean Bus at consumer events across the UK |
| Argentina | - Wines of Argentina UK Office<br>- ‘Drink Argentina’ campaign including promotions, media campaigns and sampling in UK major cities |

In the UK, the promotion of US wine is spear-headed by the Wine Institute of California’s UK Office. Their strategy is to promote “Brand California” (a region that has positive connotations in the mind of UK consumers), together with trade tastings to show the diversity of California. It is proving particularly effective. The Napa Valley Vintners’ trade body has a promotional program in the UK, administered through a PR agency – Watershed Communications. In addition, the Washington Wine Coalition and Oregon Wine Board are represented in the UK by a trade consultant - Hilltop Wines.

Looking at UK market promotion generally, above-the-line advertising expenditure has been in decline in recent years. Two-thirds of promotion undertaken in the UK is price discounting in nature.

**UK Advertising Expenditures for Brands, 2004**

| Brand | £ '000s |
|---|---|
| Ernest & Julio Gallo – Turning Leaf | 1,043 |
| Mateus Rosé | 1,038 |
| Bordeaux Wines | 848 |
| Kumala (South Africa) | 821 |
| Burgundy | 695 |
| Freixenet (Sparkling) | 628 |
| Blossom Hill – Californian Wine | 271 |

Source: The Drink Pocket Book 2006

**Pricing**

**Average Price per Bottle of Light Wine from Major Country Suppliers**

| Country of Origin | Average Price per 75cl Bottle (BPS) | | |
|---|---|---|---|
| | Year to 8 Oct 2005 | Year to 7 Oct 2006 | % Change 06 v 05 |
| Australia | 4.28 | 4.28 | 0 |
| France | 4.04 | 4.15 | 2.7 |
| USA | 3.96 | 4.02 | 1.5 |
| Italy | 3.45 | 3.48 | 0.8 |
| South Africa | 3.74 | 3.77 | 0.8 |
| Spain | 3.64 | 3.69 | 1.4 |
| Chile | 3.75 | 3.81 | 1.6 |
| Germany | 2.54 | 2.59 | 2.0 |
| New Zealand | 6.02 | 5.95 | -1.2 |
| Argentina | 3.62 | 3.62 | 0 |
| Portugal | 3.40 | 3.33 | -2.1 |
| Hungary | 3.32 | 3.44 | 3.6 |

Source: ACNielsen

The table above illustrates the value of a wine's origin in the UK mainstream retail market. For example, wines from Germany are cheaper than those from the USA. Most European wine is sold between £2.50 and £3.50 per 75cl bottle, while Australia and the USA, for example, achieve higher price points.

Mintel research has found that 20 percent of UK consumers routinely buy wines on special offer. It is reported that UK supermarket chains make stringent promotional demands on large wine brands leaving them with a choice to ultimately increase prices or make their wine more cheaply. Competition within the UK supermarket sector has led to a systematic decrease in the average price of a 75cl bottle of wine, despite consistent excise tax increases from the UK government. Smaller producers are finding it difficult to compete in this retail environment, which may lead to a decrease in choice of wine for the UK consumer over time.

In 2005/6, 87 percent of still wine purchased in the UK cost less than £5 (around $9.00) in the retail sector. As shown in the table below, there has been a decline in sales of very cheap wine, together with a decline in sales of the most expensive wine. Price bands that have shown the most growth correlate to the pricing strategies of the major supermarket chains - £5.99 is an increasingly popular price point, and the growth exhibited in the £7.01 - £8.00 price bracket is mainly attributable to New Zealand Sauvignon Blanc. The overall trend shows an indication of growing consumer affluence and interest in wine.

**Number of Bottles of Light Wine Sold in Key Price Ranges at Retail**

| Price Range 75cl Bottle | Number of Bottles Sold in each Price Range | | | | |
|---|---|---|---|---|---|
| | Year to 8 Oct 2005 | % | Year to 7 Oct 2006 | % | % Change 06 v 05 |
| Up to £3 | 19,673,557 | 25% | 17,627,178 | 22% | -10.4 |
| £3.01 - £4.00 | 31,251,950 | 40% | 33,381,333 | 42% | 6.8 |
| £4.01 - £5.00 | 16,954,107 | 22% | 17,340,841 | 22% | 2.3 |
| £5.01 - £6.00 | 5,847,202 | 8% | 6,109,576 | 8% | 12.0 |
| £6.01 - £7.00 | 1,861,524 | 2% | 2,085,128 | 3% | 4.5 |
| £7.01 - £8.00 | 930,975 | 1% | 1,057,351 | 1% | 13.6 |
| £8.01 - £9.00 | 428,767 | 1% | 443,242 | 1% | 3.4 |
| £9.01 - £10.00 | 344,197 | 0% | 340,320 | 0% | -1.1 |
| £10.01 up | 427,370 | 1% | 360,477 | 0% | -15.7 |
| TOTAL | 77,719,651 | 100% | 78,745,446 | 100% | 1.3 |

Source: ACNielsen

**Composition of UK Retail Price Points for Wine (import duty is not shown)**

| Component | Retail Price £2.99 | Retail Price £5.99 |
|---|---|---|
| Cost of wine itself | 9 pence | £1.66 |
| Approximate cost of label, shipping, bottle, etc. | 20 pence | 20 pence |
| Retailer profit – e.g. 33% | 99 pence | £1.98 |
| Value Added Tax | 45 pence | 89 pence |
| Excise Duty | £1.26 | £1.26 |

Calculations correct as of July 2005 Source: Wine & Spirit Trade Association

## Market Access

### EU Regulations

As the UK is a member of the European Union, wine exports to the UK must comply with the relevant EU import regulations.

EU wine labeling rules are laid down in Annex VII to Council Regulation 1493/1999, the EU's basic wine regulation. Commission Regulation 753/2002 lays down rules for applying the provisions contained in regulation 1493/1999, which relate to the description, designation, presentation and protection of certain wine sector products.

The March 2006 "Agreement between the United States and the European Community on Trade in Wine" marked the end of the first phase of discussions and addresses a number of issues, such as labeling and certification. Other important issues such as geographical indications will be addressed in a second phase of the negotiations that are currently ongoing. The US- EU Wine Agreement covers wine with an actual alcohol content of not less than 7% and not more than 22%. All US wine imports must be accompanied by a certification document using the format specified in Annex III(a) to the Agreement. The Agreement's "Protocol on Wine Labeling" sets conditions for the use of optional particulars on wine labels.

A report by the US Mission to the EU GAIN report E36067 gives an overview of the mandatory information required on wine labels and lists the conditions for supplementing the mandatory information with optional information. Information on the US-EU Wine Agreement can also be obtained from the US Department of the Treasury - Alcohol and Tobacco Tax and Trade Bureau http://www.ttb.gov/international_trade/us_ec_wine_agreement.htm.

Wines consigned to the European Union from third countries must be accompanied by a document known as a VI1 Form that confirms the size and nature of the wine consignment. The VI1 Form requires that US wineries certify that all wine shipments over 60 liters are made in compliance with the Wine Accords Agreement and EU regulations. The form also requires that the exporter report the results of a number of chemical analyses. Further information on this requirement is available at: http://www.ttb.gov/pdf/vi1notice.pdf

General information on the UK is available at: http://www.ttb.gov/itd/united_kingdom.shtml

A CAP Import License is required if a consignment of wine exceeds 3,000 liters. A license may be obtained by the UK importer from:

Rural Payments Agency (RPA))
Lancaster House, Hampshire Court
Newcastle upon Tyne, NE4 7YE
Tel: (+44) 191 226 5066/5207
Fax: (+44) 191 226 5212
Web: www.rpa.gov.uk

For subsequent travel through or within EU countries a Commercial Document or a Commercial Accompanying Document is also required. In addition to a transit document, a T-form will be issued when the wine enters the European Union and this will establish entitlement to EU rates of duty.

Alcoholic beverages containing sulphur dioxide and sulphites at concentrations of more than 10 mg/liter must be labeled "contains sulphites" or "contains sulphur dioxide". Replacing the word "sulphites" by "$SO_2$" or the E-number (E220) is not allowed. The list of authorized languages for allergen labeling can be consulted in GAIN report E36066.

Further information on EU import rules can be found on the US Mission to the EU's website: http://www.useu.be/agri/wine.html

**UK Regulations and Enforcement**

The Department of Environment, Food and Rural Affairs (Defra) has policy responsibility for the UK and EU Wine Regulations. Contact information for the Defra Wine Unit can be found at: http://www.defra.gov.uk/foodrin/wine/contacts.htm

The most practical source of information regarding UK/EU requirements is the UK's Wine Standards Branch (WSB) of the Food Standards Agency. The WSB enforces EU wine regulations in the UK.

The Wine Standards Branch website is a must-read resource on labeling and nomenclature rules. Here are links to the key web pages:

A Guide to the Law: http://www.wsb.org.uk/law.htm

Labeling advice: http://www.wsb.org.uk/law.htm#labelling

Please note the links within these links to useful .pdf files, for example, this link specifically on non-EU origin wine: http://www.wsb.org.uk/pdfs/EUThirdCountryWine.pdf

Wine Standards Branch (previously Board)
Room 315B
Food Standards Agency
Aviation House
London, WC2B 6NH
Contact: John Boodle, Technical Inspector
Tel: +44 20 7276 8351 Fax:+44 20 7276 8024
Email: john.boodle@foodstandards.gsi.gov.uk

Market access may be denied by Customs & Excise if documentation forms are incomplete. If the labeling is incorrect, then the wine will be allowed into bond but will not be released until the labels have been corrected. In either case, storage charges are large so it is vital that the correct documentation/labels are provided.

**Examples of tariffs applied to non-European wine imports (import duties):**

| | |
|---|---|
| Sparkling Wine | 32.0 Euros per hectoliter |
| Still Wine not exceeding 13 percent abv | 13.1 Euros per hectoliter |
| Still Wine greater than 13%, less than 15% abv | 15.4 Euros per hectoliter |
| Vermouth, Aromatized Wine | 10.9 Euros per hectoliter |

*abv = alcohol by volume*

Source: HM Customs & Excise Tariff Schedule

Please use the following website to determine the specific import duty for a wine product: http://europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm

or contact the HM Customs & Excise Commodity Code Helpline Tel: 011 44 1702 366077
plus Duty rate & VAT Helpline Tel: 011 44 845 010 9000
In addition to tariff (import) duty, US wine is subject to excise duty and a Value Added Tax (VAT).

| **Class or Description** | **Tax type code** | **Rate of Excise Duty** |
|---|---|---|
| Sparkling, exceeding 5.5%, but less than 8.5% | 412 | £166.70 per HL |
| Sparkling, 8.5% and above, but less than 15% | 411 | £220.54 per HL |
| Still, exceeding 5.5%, but less than 15% | 413 | £172.17 per HL |
| Still or Sparkling, exceeding 15%, but less than 22% | 415 | £229.55 per HL |
| Still or Sparkling, exceeding 22% | 419 | £19.56 per liter of alcohol in the wine |

Source: HM Customs and Revenue, Web: www.hmrc.gov.uk
Tel: +44 2920 501261
E-mail: intenquiries@hmrc.gsi.gov.uk

Value Added Tax (VAT) is applied ad valorem on the landed price (CIF) on arrival at the EU frontier plus all duties. The current rate of VAT is 17.5%.

Import duty is payable on samples used at trade fair tastings because of their promotional nature, public access and loss of control by HM Customs & Revenue.

Import duty is not payable in cases where organoleptic tasting by professionals takes place within companies for the purpose of quality control, provided that the wine is not consumed.

### Statistical Note

The trend for large wine producers to ship in bulk (i.e. barrels) to Europe, and then bottle into 75cl bottles greatly affects the quality of trade data available. Please note that the 2005 UK Customs data contained within this report is adjusted to account for USA bulk shipments, but is not adjusted for the bulk shipments of other country suppliers.

### Import/Export Tables

### UK Imports of Still Wine by Volume, 2003-2005

United Kingdom - Imports
HS Codes: 220421 + 220429 STILL WINE

**Quantity - HL ('000)**
**Calendar Years**

| Rank 2005 | Country | 2003 | 2004 | 2005 | % Change '05/'04 |
|---|---|---|---|---|---|
| | | | | | |
| 0 | --World-- | 11,340 | 12,442 | 12,230 | -1.7 |
| | | | | | |
| | -EU 25- | 6,053 | 6,160 | 6,259 | 1.6 |
| | | | | | |
| 2 | France | 2,511 | 2,371 | 1,760 | -25.7 |
| 7 | Germany | 1,254 | 1,292 | 949 | -26.5 |
| 4 | Italy | 1,038 | 1,290 | 1,507 | 16.9 |
| 5 | Spain | 919 | 909 | 1,076 | 18.4 |
| 9 | Portugal | 163 | 169 | 385 | 128.4 |
| 12 | Netherlands | 40 | 45 | 47 | 6.4 |
| 14 | Hungary | 79 | 41 | 35 | -13.8 |
| | | | | | |
| | Third Countries | 5,287 | 6,282 | 5,971 | -5.0 |
| | | | | | |
| 1 | Australia | 2,059 | 2,526 | 2,566 | 1.6 |
| 3 | United States | 1,163 | 1,422 | 1,524 | 7.1 |
| 6 | South Africa | 950 | 993 | 985 | -0.8 |
| 8 | Chile | 686 | 860 | 809 | -5.9 |
| 10 | Argentina | 176 | 194 | 239 | 23.1 |
| 11 | New Zealand | 132 | 176 | 218 | 23.6 |
| 13 | Bulgaria | 82 | 64 | 44 | -30.6 |

Source of data: H.M. Customs and Excise

## UK Imports of Still Wine by Value, 2003-2005

United Kingdom - Imports
HS Codes: 220421 + 220429 STILL WINE

Millions of US Dollars
Calendar Years

| Rank 2005 | Country | 2003 | 2004 | 2005 | % Change '05/04 |
|---|---|---|---|---|---|
| | | | | | |
| | --World-- | 3002 | 3563 | 3580 | 0.5 |
| | | | | | |
| | -EU 25- | 1558 | 1756 | 1871 | 6.5 |
| | | | | | |
| 2 | France | 797 | 838 | 708 | -15.5 |
| 3 | Italy | 276 | 378 | 433 | 14.6 |
| 5 | Spain | 225 | 249 | 247 | -0.6 |
| 8 | Germany | 135 | 168 | 176 | 4.5 |
| 10 | Portugal | 79 | 78 | 83 | 6.9 |
| 12 | Netherlands | 13 | 16 | 13 | -15.6 |
| 13 | Hungary | 14 | 11 | 10 | -12.4 |
| 15 | Belgium | 7 | 6 | 7 | 16.6 |
| | | | | | |
| | Third Countries | 1444 | 1807 | 1709 | -5.4 |
| | | | | | |
| 1 | Australia | 632 | 841 | 843 | 0.3 |
| 4 | United States | 279 | 338 | 329 | -2.7 |
| 6 | South Africa | 229 | 250 | 230 | -8.1 |
| 7 | Chile | 163 | 204 | 197 | -3.3 |
| 9 | New Zealand | 77 | 107 | 132 | 23.7 |
| 11 | Argentina | 38 | 42 | 50 | 20.1 |
| 14 | Bulgaria | 11 | 9 | 7 | -27.4 |

Source of data: H.M. Customs and Excise

### UK Imports of Sparkling Wine by Volume, 2003-2005

United Kingdom - Imports
HS Code: 220410 SPARKLING WINE

Quantity - HL ('000)
Calendar Years

| Rank 2005 | Country | 2003 | 2004 | 2005 | % Change '05/'04 |
|---|---|---|---|---|---|
| | | | | | |
| | --World-- | 657 | 691 | 736 | 6 |
| | | | | | |
| | -EU 25- | 579 | 609 | 628 | 3 |
| | | | | | |
| 1 | France | 278 | 288 | 313 | 8 |
| 2 | Spain | 168 | 198 | 207 | 5 |
| 4 | Italy | 86 | 74 | 58 | -22 |
| 5 | Germany | 21 | 43 | 47 | 9 |
| | | | | | |
| | Third Countries | 78 | 82 | 108 | 32 |
| | | | | | |
| 3 | Australia | 50 | 52 | 68 | 30 |
| 6 | United States | 4 | 13 | 18 | 30 |
| 7 | New Zealand | 12 | 11 | 17 | 60 |

### UK Imports of Sparkling Wine by Value, 2003-2005

United Kingdom - Imports
HS Code: 220410 SPARKLING WINE

Millions of US Dollars
Calendar Years

| Rank 2005 | Country | 2003 | 2004 | 2005 | % Change '05/04 |
|---|---|---|---|---|---|
| | | | | | |
| | --World-- | 526 | 658 | 700 | 4 |
| | | | | | |
| | -EU 25- | 492 | 618 | 650 | 2 |
| | | | | | |
| 1 | France | 408 | 518 | 557 | 4 |
| 2 | Spain | 44 | 56 | 57 | -9 |
| 3 | Italy | 29 | 25 | 23 | -24 |
| 5 | Germany | 6 | 10 | 13 | 40 |
| | | | | | |
| | Third Countries | 34 | 50 | 50 | 4 |
| | | | | | |
| 4 | Australia | 20 | 25 | 36 | 22 |
| 6 | New Zealand | 8 | 8 | 12 | 52 |
| 7 | United States | 2 | 6 | 8 | 35 |

Source of data: H.M. Customs and Excise

### UK Imports of Flavored Wine & Vermouth by Volume, 2003-2005

United Kingdom - Imports
HS Code: 2205 FLAVORED WINE, VERMOUTH

Quantity - HL ('000)
Calendar Years

| Rank | Country | 2003 | 2004 | 2005 | % Change '05/'04 |
|---|---|---|---|---|---|
| | | | | | |
| | --World-- | 149 | 166 | 150 | -10 |
| | | | | | |
| | -EU 25- | 148 | 166 | 150 | -9 |
| | | | | | |
| 1 | France | 62 | 75 | 74 | -2 |
| 2 | Italy | 47 | 51 | 33 | -35 |
| 3 | Netherlands | 25 | 24 | 22 | -6 |
| 4 | Germany | 12 | 13 | 18 | 45 |
| 5 | Spain | 3 | 2 | 3 | 11 |

### UK Imports of Flavored Wine & Vermouth by Value, 2003-2005

United Kingdom - Imports
HS Code: 2205 FLAVORED WINE, VERMOUTH

Millions of US Dollars
Calendar Years

| Rank | Country | 2003 | 2004 | 2005 | % Change '05/'04 |
|---|---|---|---|---|---|
| | | | | | |
| | --World-- | 26 | 24 | 22 | -6 |
| | | | | | |
| | -EU 25- | 26 | 24 | 21 | -6 |
| | | | | | |
| 1 | France | 11 | 10 | 10 | -2 |
| 2 | Italy | 8 | 8 | 6 | -29 |
| 3 | Netherlands | 3 | 3 | 3 | 2 |
| 4 | Germany | 1 | 2 | 3 | 50 |
| 5 | Spain | 1 | 0 | 0 | 9 |

Source of data: H.M. Customs and Excise

## UK Exports of Still Wine by Volume, 2003-2005

**United Kingdom - Exports**
**HS Codes: 220421 + 220429 STILL WINE**

**Quantity - HL (000)**
**Calendar Years**

| Country | 2003 | 2004 | 2005 | % Share 2005 |
|---|---|---|---|---|
| --World-- | 237 | 233 | 252 | 100 |
| | | | | |
| -EU-25- | 179 | 175 | 155 | 62 |
| | | | | |
| Third Countries | 58 | 58 | 97 | 38 |
| United States | 11 | 11 | 5 | 2 |

## UK Exports of Still Wine by Value, 2003-2005

**United Kingdom - Exports**
**HS Codes: 220421 + 220429 STILL WINE**

**Calendar Years**
**Millions of US Dollars**

| Country | 2003 | 2004 | 2005 | % Change 05/04 |
|---|---|---|---|---|
| --World-- | 210 | 196 | 211 | 8 |
| | | | | |
| -EU-25- | 84 | 91 | 103 | 13 |
| | | | | |
| Third Countries | 126 | 105 | 108 | 3 |
| United States | 64 | 40 | 33 | -17.5 |

*Source of Data: H.M. Customs and Excise*

## UK Exports of Sparkling Wine by Volume, 2003-2005

**United Kingdom - Exports**
**HS Code: 220410 SPARKLING WINE**

**Quantity - HL**
**Calendar Years**

| Country | 2003 | 2004 | 2005 | % Change '05/'04 |
|---|---|---|---|---|
| --World-- | 13 | 13 | 24 | |
| | | | | |
| -EU-25- | 8 | 7 | 9 | |
| | | | | |
| Third Countries | 5 | 6 | 15 | |
| United States | 1 | 1 | 1 | 0 |

## UK Exports of Sparkling Wine by Value, 2003-2005

**United Kingdom - Exports**
**HS Code: 220410 SPARKLING**

**Calendar Years**
**Millions of US Dollars**

| Country | 2003 | 2004 | 2005 | % Change 05/04 |
|---|---|---|---|---|
| --World-- | 20 | 17 | 22 | |
| | | | | |
| -EU-25- | 7 | 8 | 11 | |
| | | | | |
| Third Countries | 13 | 9 | 11 | |
| United States | 4 | 2 | 3 | |

*Source of Data: H.M. Customs and Excise*

## UK Exports of Flavored Wine & Vermouth by Volume, 2003-2005

**United Kingdom - Exports**
**HS Code: 2205 FLAVORED WINE, VERMOUTH**

**Quantity - L (000)**
**Calendar Years**

| Country | 2003 | 2004 | 2005 | % Share 2005 |
|---|---|---|---|---|
| --World-- | 163 | 100 | 291 | 100 |
| | | | | |
| -EU-25- | 92 | 41 | 125 | 43 |
| | | | | |
| Third Countries | 71 | 59 | 166 | 47 |
| United States | 0 | 0 | 0 | 0 |

## UK Exports of Flavored Wine & Vermouth by Value, 2003-2005

**United Kingdom - Exports**
**HS Code: 2205 FLAVORED WINE, VERMOUTH**

**Calendar Years**
**Millions of US Dollars**

| Country | 2003 | 2004 | 2005 | % Share 2005 |
|---|---|---|---|---|
| --World-- | 1.4 | 0.8 | 1.1 | 100 |
| | | | | |
| -EU-25- | 1.0 | 0.5 | 0.9 | 82 |
| | | | | |
| Third Countries | 0.4 | 0.3 | 0.2 | 18 |
| United States | 0.0 | 0.0 | 0.0 | 0 |

*Source of Data: H.M. Customs and Excise*